

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 USIA-06 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 ABF-01 AGRE-00 DODE-00 DOE-11 SOE-02
/113 W

-----064202 110210Z /73

R 100727Z MAR 78
FM AMEMBASSY ANKARA
TO SECSTATE WASHDC 981
INFO AMCONSUL ADANA
AMEMBASSY ATHENS
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMCONSUL ISTANBUL
AMCONSUL IZMIR
AMEMBASSY NICOSIA
AMEMBASSY PARIS
CINCUSAFE
USCINCEUR
USDOCOLANDSOUTHEAST IZMIR
USDOCOSOUTH NAPLES
USMISSION GENEVA
USMISSION USNATO

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USEEC, USOECD

USDOCOSOUTH FOR INTAF

E.O. 11652: N/A
TAGS: EFEN, TU
SUBJECT: EFFECTS OF DEVALUATION ON OUTSTANDING TRANSFER
APPLICATIONS
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REF: ANKARA 1058

SUMMARY: WHEN THE TURKISH LIRA WAS DEVALUED ON MARCH 1,
ABOUT 1.5 BILLION DOLLARS IN FOREIGN EXCHANGE TRANSFER
APPLICATIONS TO PAY FOR IMPORTS WERE PENDING AT THE CENTRAL
BANK. ACCORDING TO THE OFFICIAL NOTICE OF DEVALUATION,

IMPORTERS MAINTAINING THESE APPLICATIONS MUST PAY THE DIFFERENCE IN LIRAS BETWEEN THE OLD AND NEW RATES WITHIN THREE MONTHS, OR THEY MAY WITHDRAW THE APPLICATIONS. THE CHIEF AIM OF THIS REGULATION IS TO ASSURE THAT IMPORTERS, NOT THE CENTRAL BANK, BEAR THE BURDEN OF THE DEVALUATION. OTHER AIMS ARE TO SHAKE OUT TRANSFER APPLICATIONS THAT COVER DEBTS ALREADY PAID WITH BLACKMARKET FOREIGN EXCHANGE, AND TO REDUCE THE MONEY SUPPLY. REQUIRED PAYMENT OF EXCHANGE RATE DIFFERENTIAL HAS RAISED CRIES OF OUTRAGE FROM BUSINESS COMMUNITY. CENTRAL BANK IS NOT SYMPATHETIC. END SUMMARY.

1. THE TURKISH CENTRAL BANK HAS MADE NO TRANSFERS OF FOREIGN EXCHANGE IN MORE THAN A YEAR, EXCEPT FOR A FEW VITAL CATEGORIES OF IMPORTS. WHEN THE GOT DEVALUED THE LIRA ON MARCH 1 OF THIS YEAR (DOLLAR WAS REVALUED BY 29.87 PERCENT, OTHER CURRENCIES BY AS MUCH AS 37 PERCENT), APPLICATIONS FROM IMPORTERS FOR FOREIGN EXCHANGE TRANSFERS TO PAY FOR GOODS THAT HAVE ALREADY ARRIVED WERE PENDING AT THE CENTRAL BANK IN THE AMOUNT OF ABOUT 1.5 BILLION DOLLARS. THESE TRANSFER APPLICATIONS ARE A LARGE PART OF THE SHORT-TERM DEBT LOAD THAT HAS CREATED TURKEY'S PRESENT FINANCIAL CRISIS. OFFICIAL SOURCES ESTIMATE THAT AS MUCH AS HALF OF THE AMOUNT THAT THESE APPLICATIONS REPRESENT IS OSTENSIBLY OWED IN PAYMENT FOR IMPORTS THAT, IN FACT, HAVE BEEN PAID FOR IN FOREIGN EXCHANGE PURCHASED ON THE BLACKMARKET. (SEE LIMITED OFFICIAL USE

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REFTEL).

2. ARTICLE 6 OF THE DEVALUATION NOTICE, WHICH APPEARED IN A SUPPLEMENTARY ISSUE OF THE OFFICIAL GAZETTE, MARCH 1, DESCRIBES HOW TRANSFER APPLICATIONS ARE TO BE TREATED IN LIGHT OF THE DEVALUATION: IMPORTERS WHO WISH TO MAINTAIN PENDING TRANSFER APPLICATIONS MUST DEPOSIT THE DIFFERENCE IN LIRAS BETWEEN THE OLD AND NEW EXCHANGE RATES, JUST AS THEY ORIGINALLY DEPOSITED THE EXCHANGE VALUE OF THE TRANSACTION IN LIRAS; DEPOSIT IS TO BE MADE WITHIN THREE MONTHS, IN MONTHLY INSTALLMENTS, UNLESS TRANSFER IS MADE SOONER, IN WHICH CASE FULL DEPOSIT MUST BE MADE AT THE TIME TRANSFER IS MADE. IMPORTERS WHO DO NOT WISH TO MAINTAIN TRANSFER APPLICATIONS MAY WITHDRAW THEM, IN WHICH CASE THE PERTINENT BANK WILL CLOSE THE IMPORT ACCOUNT, AND THE LIRA DEPOSIT PREVIOUSLY MADE WILL BE REFUNDED TO THE MIMPORTER IN THREE MONTHLY INSTALLMENTS.

3. THE CHIEF AIM OF THIS ARTICLE IS TO ASSURE THAT THE CENTRAL BANK WILL NOT HAVE TO PAY, IN EFFECT, THE LIRA INCREASE IN COMMERCIAL DEBTS CREATED BY THE DEVALUATION. IT HAS BEEN THE CONSISTENT PRACTICE OF THE GOT TO MAKE

IMPORTERS LIABLE FOR LIRA DIFFERENCES, CAUSED BY EXCHANGE
RATE ADJUSTMENTS, IN PENDING TRANSFERS. THE RECENT
DEVALUATION IS UNUSUAL IN BEING SO LARGE, AND IN THAT
IMPORTERS ARE BEING PERMITTED TO WITHDRAW TRANSFER
APPLICATIONS.

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4. PERMITTING WITHDRAWAL OF TRANSFER APPLICATIONS IS
AIMED AT SHAKING OUT THOSE APPLICATIONS THAT REPRESENT
DEBT ALREADY PAID THROUGH THE BLACKMARKET. (SEE REFTEL)
MEASURES TAKEN (DEVALUATION TO 25 LIRAS TO THE DOLLAR AND

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ALLOWING WITHDRAWAL OF APPLICATIONS, NO QUESTIONS ASKED) WERE SUGGESTED AS A MEANS OF MEETING THIS AIM BY YAVUZ CANEVI, DIRECTOR GENERAL OF FOREIGN EXCHANGE OF THE CENTRAL BANK, IN CONVERSATION WITH EMBOFFS. CANEVI IS AWARE THAT THESE MEASURES ARE IMPERFECT: INCENTIVES TO MAINTAIN APPLICATIONS WILL EXIST SO LONG AS ALLOCATION OF FOREIGN EXCHANGE IS SEVERELY LIMITED, AND SO LONG AS THERE IS A GAIN TO BE MADE IN OFFICIAL TRANSACTIONS AS COMPARED WITH THE BLACK-MARKET. HOWEVER, IN AN ENVIRONMENT WHERE IMPORTERS WHO HAVE NOT PAID THROUGH THE BLACKMARKET ARE SCRAMBLING TO FIND LIRAS TO COVER ACTUAL DEBT, THOSE WHOSE NEED IS NOT SO PRESSING MAY FIND THE COST OF MAINTAINING APPLICATIONS TOO GREAT. FURTHER, ANTICIPATED CHANGES IN THE IMPORT REGIME MAY REDUCE DEMAND FOR FOREIGN EXCHANGE. THERE IS A COMPLICATION IN THAT BLACKMARKET PAYMENTS HAVE USUALLY BEEN A PERCENTAGE OF FULL VALUE OF IMPORTS-- IMPORTERS MUST EITHER MAINTAIN APPLICATIONS OR RESORT TO THE BLACKMARKET ONCE AGAIN TO PAY THE BALANCE. THE EFFECT OF THESE COMPETING INCENTIVES AND DISINCENTIVES, THAT IS, HOW MANY APPLICATIONS WILL BE WITHDRAWN, REMAINS TO BE SEEN. A LEGAL CONUNDRUM MAY TBE CREATED IF IMPORTERS WITHDRAW TRANSFER APPLICATIONS RELATED TO ACTUAL DEBTS, THAT IS, DEBTS THAT HAVE NOT BEEN PAID ON THE BLACKMARKET.

5. IF TRANSFER APPLICATIONS ARE NOT WITHDRAWN IN SIGNIFICANT AMOUNTS, PAYMENT OF THE EXCHANGE RATE DIFFERENTIAL WILL RESULT IN A CONSIDERABLE REDUCTION IN THE MONEY SUPPLY. IF A 33 PERCENT DIFFERENTIAL WERE PAID ON ALL PENDING TRANSFER APPLICATIONS, MORE THAN 12 BILLION LIRAS WOULD BE WITHDRAWN FROM A TOTAL MONEY SUPPLY OF ABOUT 200 BILLION LIRAS, A REDUCTION OF ABOUT 6 PERCENT. ZEKERIYEH YILDIRIM, CANEVI'S DEPUTY, TOLD EMBOFFS THAT REDUCTION OF THE MONEY SUPPLY IS ONE OF THE OBJECTIVES OF ARTICLE 6 OF DEVALUATION NOTICE.

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6. THE REQUIREMENT THAT AN EXCHANGE RATE DIFFERENTIAL BE PAID ON TRANSFER APPLICATIONS, WHICH ARE TO PAY FOR GOODS THAT HAVE BEEN RECEIVED AND OFTEN RESOLD, HAS RAISED AN OUTCRY FROM THE BUSINESS COMMUNITY. MANY FIRMS CLAIM THAT THE BUSINESS COMMUNITY. MANY FIRMS CLAIM THAT THE NEW PAYMENTS MAY PUSH THEM TO BANKRUPTCY. INURED TO SUCH OUTCRY, THE CENTRAL BANK IS NOT SYMPATHETIC. YILDIRIM POINTED OUT THAT MANY FIRMS HAVE MADE CONTRACTS

THAT PASS THE COST OF DEVALUATION ON TO THE ULTIMATE
PURCHASERS OF IMPORTED GOODS.

7. COMMENT: THE EFFECTS OF THE RECENT DEVALUATION, AS
IT BEARS ON PENDING TRANSFER APPLICATIONS, WILL BE
BENEFICIAL FOR THE TURKISH ECONOMY IN GENERAL. IF
APPLICATIONS ARE WITHDRAWN IN SIGNIFICANT AMOUNTS, AN
EQUAL AMOUNT OF ESSENTIALLY FICTITIOUS SHORT-TERM
DEBT WILL BE DISSOLVED; IF APPLICATIONS ARE NOT WITHDRAWN,
A REDUCTION IN THE MONEY SUPPLY WILL SHARPLY BRAKE
INFLATION. EFFECTS ON INDIVIDUAL FIRMS, INCLUDING
SOME US-OWNED SUBSIDIARIES, MAY BE DRASTIC, HOWEVER.
SPIERS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DEVALUATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 10 mar 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978ANKARA01810
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780109-0030
Format: TEL
From: ANKARA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780379/aaaacpdu.tel
Line Count: 237
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 15cc18c9-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 ANKARA 1058
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3362411
Secure: OPEN
Status: NATIVE
Subject: EFFECTS OF DEVALUATION ON OUTSTANDING TRANSFER APPLICATIONS LIMITED OFFICIAL USE
TAGS: EFIN, TU
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/15cc18c9-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014